

- 7.7 Review Each contract should be reviewed by the Contract Administrator on an annual basis to determine if there have been any changes that may required the contract to be reentered into the classification process.
- 7.8 Cancellation If a contract is cancelled, the Contract Administrator should write "CANCELLED on (date)" in red ink at the tope of the original SW-1161, and return the form to the Contract Coordinator. In addition, the Contract Administrator must ensure that the ongoing reporting associated with the contract Activities is terminated appropriately.

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## 8.0 NONREGULATED CONTRACT PROCESS

**Caution:** *No contract for a 272 affiliate can come through this process prior to legal and regulatory review by the 272 Oversight Team*

- 8.1 The classification of Nonregulated indicates that the contract is any one of the following:
- a. a line-of-business Activity;
  - b. a non-incidental Activity that has never been tariffed or otherwise regulated by the FCC or any state commission;
  - c. an Activity that has been preemptively deregulated by the FCC;
  - d. any non-incidental Activity that is not considered to be a common carrier communications activity under Title II of the Communications Act of 1934, as amended; or
  - e. any Incidental Activity that causes the aggregate revenues of all Incidental activities to exceed the FCC limit of one percent of total company annual regulated operating revenues.
- 8.2 For contracts classified as Nonregulated, the cost allocation requirements established in Part 64.901 of the FCC Rules and Regulations and defined specifically in the SWBT CAM procedures must be followed to ensure proper cost allocation between our Regulated and Nonregulated activities.
- 8.3 A contract may be classified as nonregulated and also be classified as an affiliate transaction, in which case affiliate transaction rules apply as well. Services provided *only* to affiliates are addressed in Section 13-Affiliate Services. Treatment of other nonregulated affiliate transactions are noted in the following paragraphs.
- 8.4 Upon classification as nonregulated by the CAM contact the Contract Administrator begins the formal classification process.
- 8.401 Step 1 Assessment  
For each contract, the new service or Activity must be assessed for marketability.

A letter of request for the assessment of a new product, service or Activity should be handled as follows:

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- a. Send the letter of request to the Marketing Assessment Address identified in Attachment 3.
- b. Provide a description of the service, or Activity.
- c. Describe the targeted market for the product, service or Activity.
- d. If the result of the assessment is to introduce a nontariffed (contract) service, then the classification process will continue.

**8.402 Step 2 Cost Study**

A cost study is required for each new or renegotiated contract for the provision of Nontariffed Activities.

- 1) The type of cost methodology used will be based on the classification of the contract.
  - a. For contracts with Nonaffiliate third parties that are classified as Nonregulated Activity, an incremental unit cost study will be used as the cost floor reference for establishing the price.
  - b. For contracts with Affiliates classified as Nonregulated Activity, a Fully Distributed Cost study as required by the FCC rules as promulgated in 47 C.F.R., Part 32.27 and 47 C.F.R., Part 64.901 will be used as the cost comparison to an estimated fair market evaluation for those services for which a prevailing price does not exist. SWBT will record as revenue the higher of estimated fair market value and FDC. Estimated fair market value studies will be performed with the assistance of the Area Manager-Affiliate Services (Tom Powers, 314-235-9559) using unaffiliated third party price lists, quotes or a business research consultant's assistance. A prevailing price can only be established if more than 50% of an individual service or item quantity is sold to unaffiliated third parties. Documentation supporting the determination that a prevailing price is established must be provided to the Area Manager-Affiliate Services.

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- 2) To request a cost study, a letter should be sent to the Cost Studies Request Address identified in Attachment 3. Questions may be referred to the Cost Studies Contact identified in Attachment 3. The following information is required.
  - a. Provide a description of the contract, the contract period, and a description of each pricing element (such as per unit, per month, per hour, etc.).
  - b. Provide all non-recurring cost elements (one-time and/or start-up) by state and the anticipated date the costs will be incurred.
  - c. Provide all recurring cost elements associated with capital investments; i.e., all equipment, account codes, installation hours, engineering hours, vendor fees, property tax and maintenance expenses (dollars or hours) by state and the anticipated date the costs will be incurred.
  - d. For labor efforts (recurring and non-recurring) provide the Responsibility Code (RC), the Job Function Code (JFC), the job level, the number of people and the hours required by state to perform the function. Also indicate how the time was determined (e.g., time and motion study, experience, etc.).
- 3) The Cost Studies organization will perform a cost study based on the classification of the contract.
  - a. Cost Studies personnel may request additional information, as needed, from the Service Provider and/or the Contract Administrator.
  - b. Cost Studies personnel will develop the annual costs associated with the Activity including capital cost and operating expenses.
  - c. The cost study results for each pricing element will be provided to the Marketing Department to establish the price. The cost study can usually be completed within two months from the date of the request. This cost is considered to be the cost floor for establishing the price.

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- d. The cost study results may be provided to the Separations organization for their use if required.

**8.403 Step 3 Pricing**

The pricing of specific contract Activities is normally done by the Marketing organization *unless the contract is with an affiliate, then the Area Manager-Affiliate Services should be contacted.*

- a) Market value is a primary factor in setting price. If a comparable service, product or activity exists in the open marketplace, the price should be set in relation to that market price.
- b) If a market comparable is not available, service value can be used in setting the price. The value of a service, product or Activity may be what the customer is willing to pay or what it would cost the customer to perform the service internally.
- c) However, both market value and service value pricing must recover cost plus some reasonable contribution. *The higher of estimated fair market value and FDC will be recovered for services provided to affiliates if prevailing price criteria are not met. A prevailing price can only be established if more than 50% of an individual service or item quantity is sold to unaffiliated third parties. Documentation supporting the determination that a prevailing price is established must be provided to the Area Manager-Affiliate Services.*

**8.404 Step 4 Negotiation**

For each contract, coordination must occur between the buyer, the Service Provider and either the Product Manager or a Contract Manager to negotiate terms for a formal contract. Negotiation assistance and guidance is available from the Marketing and Legal Departments and where appropriate, the Procurement Department. Specifically, the group that sets the price for a particular service can provide contract negotiation or recommendations on contract content. Prior to signing, all contracts are required to be submitted for legal review.

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**8.405 Step 5 Legal Review**

Each Contract Administrator must forward the contract to the appropriate departmental representative for review before the contract is signed. The contract must also be forwarded to the CAM Attorney for review prior to being signed.

**8.406 Step 6 Contract Signing**

Upon return from legal review the Contract Administrator must obtain the appropriate signatures of the buyer and SWBT (according to the Schedule of Authorizations).

**8.407 Step 7 Routing Determination**

As soon as the contract has been signed the Contract Administrator must proceed according to the type of service described in the contract.

- a. If the contract is for the nonregulated services of technical personnel services, data processing, data processing service bureau services or *White Pages Advertising* services provided by SWBT to affiliates, the Contract Administrator must forward a copy of the contract to the Area Manager-Affiliate Services as listed in Attachment 3. The Area Manager-Affiliate Services will assure the billing is established as described in the Contract Administrators Guide, Attachment 5 of this Operating Practice, and assure that copies of the contract are provided to the regulatory bodies as necessary. The billing mechanism is the Technical Services Billing System which parallels the Affiliate Billing System described in the Contract Administrators Guide.
- b. If the contract is for a nonregulated activity other than listed in (a) above, the Contract Administrator must prepare an SW-1161 as described in Attachment 1 of this Operating Practice. The Contract Administrator must forward the SW-1161 to the Contract Coordinator listed in Attachment 2 to obtain the formal classification. A signed copy of the contract must be attached to the SW-1161.

**8.408 Step 8 Formal Classification**

The Contract Coordinator will sign the SW-1161 indicating agreement with the classification as noted on the SW-1161.

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- 8.409 Step 9 CAM Attorney Review  
The Contract Coordinator will forward the contract and SW-1161 to the CAM Attorney for signature to indicate the concurrence with the classification noted on the SW-1161.
- 8.410 Step 10 Accounting Classifications  
Upon return of the SW-1161 from the Contract Coordinator with the proper signatures, each Contract Administrator must coordinate with the Contract Coordinator who will contact Accounting Classifications, when necessary, to ensure that the proper account classifications are determined for financial reporting purposes.
- 8.411 The accounting for Nonregulated activities is defined by the FCC is Part 32 and Part 64 of the FCC Rules and Regulations and is described in SWBT's CAM procedures. When the contract classification has been determined as Nonregulated by the Contract Administrator and concurred with by the Contract Coordinator, the Contract Administrator will contact the Cost Allocation Manual (CAM) Contact listed in Attachment 3 who will determine the necessary Nonregulated reporting codes needed for reporting the expenses as required in the CAM. In addition, the Contract Administrator will contact the Accounting Classifications Contact listed in Attachment 3 who will establish the necessary Nonregulated Special Purpose Function Codes (SPFCs) and subaccounts for the identification of revenues.
- 8.412 Specific questions concerning the CAM should be directed to the CAM Contact listed in Attachment 3. All other accounting classifications questions related to Nonregulated Activities should be directed to the Accounting Classifications Contact listed in Attachment 3.
- 8.413 Step 10 Reporting and Tracking  
Each Contract Administrator will determine the appropriate tracking system and must ensure that the details of the ongoing contract Activities are provided by the Service Provider to the appropriate billing and tracking systems.
- a. Generally, nonregulated services are billed through CRIS, CABS, or revenue special billing.

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- b. Certain nonregulated Installation and Maintenance activities *provided to affiliates may be billed through either the I/M billing system administered by the Area Manager-Affiliate Services, or through disbursement special billing.*
  - c. Certain nonregulated Data Processing Service Bureau, Technical Personnel Services and White Pages Advertising Services provided to affiliates are billed through the Technical Services Billing System administered by the Area Manager-Affiliate Services.
- 8.5 *Nonregulated billed revenues must be readily available for reporting to federal and state regulators, without regard as to whether or not such revenues are associated with an affiliate transaction.*
- 8.6 The contracts that have been classified via Form SW-1161 will be used by the Contract Coordinator in updating SWBT's CAM with the FCC.
- 8.7 Separations Treatment Each Contract Administrator must provide information as requested by the Separations organization for fulfilling FCC requirements for appropriate Separations treatment. Questions may be referred to the Separations Contact listed in Attachment 3.
- 8.8 Review. Each contract should be reviewed by the Contract Administrator on an annual basis to determine if there have been any changes that may require the contract to be reentered into the classification process.
- 8.9 Cancellation. If a contract is cancelled, the Contract Administrator should write "CANCELLED on (date)" in red ink at the top of the original SW-1161, and return the form to the Contract Coordinator. In addition, the Contract Administrator must ensure that the ongoing reporting associated with the contract Activities is terminated appropriately.

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## **9.0 AFFILIATE TRANSACTION RULES**

- 9.1** In CC Docket No. 96-150, the FCC prescribes rules which SWBT must follow in conducting business with its affiliated companies. These rules, which have been incorporated into the SWBT CAM, prescribe the methods for accounting for Regulated activities involving assets and services transferred between SWBT and its Affiliates.
- 9.10** Assets or services sold by or transferred between SWBT and an affiliate pursuant to a tariff, shall be recorded at the tariffed rate. (SWBT is allowed to use rates in publicly-filed interconnection agreements and statements of generally available terms when tariffed rates are not available).
- 9.11** Nontariffed assets or services sold by or transferred between SWBT and an affiliate may be recorded at the prevailing price.
- 9.111** Prevailing price is established if sales of a particular asset or service to nonaffiliated third parties encompasses greater than 50 percent of total quantity of such product or service sold by an entity.
- 9.112** SWBT sales of facilities, service or information which are subject to the nondiscrimination requirements of Section 272 of the Telecommunications Act of 1996 may be recorded at prevailing price without regard to the 50 percent threshold.
- 9.12** For services SWBT purchases from an affiliate that exists solely to provide services to members of the corporate family, the services shall be recorded at fully distributed cost.
- 9.13** For all other SWBT purchases from an affiliate, the purchase shall be recorded at the lower of fair market value and 1) fully distributed cost for services, or 2) net book cost for assets.
- 9.14** For all other SWBT sales to an affiliate, the sale shall be recorded at the higher of fair market value and 1) fully distributed cost for services, or 2) net book cost for assets.

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- 9.15 Anyone planning to enter into a transaction with a 272 affiliate must contact the 272 Oversight Team (see Section 3-Definitions). All other affiliate transactions must be coordinated through the organization of the District Manager-State Regulatory Issues. For sales to an affiliate, other than assets, contact the Area manager-Affiliate Services (see Attachment 3, Page 2). For all other purchase and sales transactions with affiliates, contact the Area Manager-Affiliate Transactions (see Attachment 3, Page 2). These contacts will assure that all regulatory issues are addressed. All nontariffed affiliate transactions should have a written contract.

**NOTE:** *Unique structural and transactional rules apply to affiliate transactions with a 272 Affiliate. (See Appendix 8 for a matrix of these issues.) Proposed interLATA services must be forwarded for review by the 272 Oversight Team prior to contracting with a 272 Affiliate.*

- 9.16 As indicated in the Table of Contents, see applicable sections of this Operating Practice as follows:

Section 6.0 - Regulated Nontariff Contract Classification  
(For nontariff services which are 1) not sold to affiliates only, 2) not nonregulated, or 3) not incidental activities.)

Section 7.0 - Incidental Activities Contract Classification  
(For nontariff services listed in SWBT's Cost Allocation Manual Section 3 as "incidental activities.")

Section 8.0 - Nonregulated Contract Classification.

Section 9.0 - Affiliate Transaction Rules.

Section 10.0 - Sales of Assets to Affiliates.

Section 11.0 - Purchases from Affiliates.

Section 12.0 - Other Occasional Asset Purchases from Affiliates.

Section 13.0 - Affiliate Services  
(For nontariff services sold only to affiliates).

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## **10.0 SALES OF ASSETS TO AFFILIATES**

- 10.1**     **Affiliate Transactions involving the sales and purchases of plant in-place must be coordinated with the Area Manager-Valuation (see Attachment 3, Page 2) in the organization of the Division Manager-Finance/Regulatory. Additional information on procedures for the processing and recording of sales or purchases of telephone plant in-place can be found in the SWBT Purchases and Sales Manual. Questions may be referred to the Purchases and Sales Contact listed in Attachment 3.**
- 10.2**     **Affiliate Transactions involving the sale and purchases of assets other than in-place Plant must be coordinated through the organization of the District Manager-State Regulatory Issues.**
- 10.3**     **Regardless of the type of asset sold the person responsible for the sale must assure that the following steps are included in the sales process.**
  - 10.301     Step 1**  
**Develop documentation of the net book value (original cost minus appropriate depreciation reserves) for each item to be sold.**
  - 10.302     Step 2**  
**Develop and document the fair market value of the items to be sold, i.e. call new or used furniture, or computer equipment, etc. dealers for quotes of current sales price of like items.**
  - 10.303     Step 3**  
**Negotiate with the affiliate for a price that must be the higher of the net book value and fair market value for each item.**
  - 10.304     Step 4**  
**Prepare the sales documentation (invoice, bill of sale etc.) in such a manner that the net book value, the fair market value and the sales price for each item are clearly displayed.**

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10.305 Step 5

Upon completion of the sale, copies of the documentation including net book value and fair market value documentation must be provided to the Area Manager-Affiliate Transactions at the address shown on Attachment 3, Page 2. Documentation includes how fair market value was determined and, if discussions with *used equipment* or furniture dealers took place, a record of what company, when the discussion occurred and the fair market value detail.

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## **11.0 PURCHASES FROM AFFILIATES**

- 11.1** Purchases from affiliates must not be undertaken without a written contract or agreement and should only be done when it makes good business sense to do so. The contract/agreement must contain a clause necessary to ensure that the affiliates provide the information SWBT needs in order to account for the affiliate transactions in compliance with the FCC accounting safeguards. See Attachment 6 for an example of this clause. Refer to Operating Practice 112, Purchasing and Contracting Policies, and/or request support from the Legal or Procurement representative for the appropriate standard clauses to include in affiliate contracts or agreements. When documenting oral purchase agreements as described in Section 1 of this Operating Practice, language similar to the clause in Attachment 6 must be included.
- 11.2** Recurring asset purchases are covered in this section; i.e., monthly purchases of telephone and cellular equipment. Refer to Section 12 of this Operating Practice for information on occasional nonrecurring asset purchases from affiliates; i.e., chair, table, microcomputer, etc.
- 11.3** Although purchase contracts do not enter the classification process, an SW-1161 must be prepared for each new purchase contract where SWBT is purchasing goods/services from an affiliate. The SW-1161 and a copy of the associated contract must be sent to the Contract Coordinator listed in Attachment 2. The SW-1161, the contract and all future amendments, addendums and contract cancellations must be provided to the Contract Coordinator for 1) provision to state and federal regulators and internal and external auditors; 2) inclusion in the Cost Allocation Manual filed with the FCC, and 3) affiliate transaction monitoring purposes. The preparation and review of the SW-1161 is an integral part of the audit trail that identifies affiliate contracts for tracking and monitoring of the associated transactions.
- 11.4** The following process must begin immediately after a new contract, amendment or addendum is signed for purchases by SWBT from an affiliate.

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- 11.41      **Step 1**  
For new contracts, the Contract Administrator must prepare an SW-1161 as described in Attachment 1 of this Operating Practice. The SW-1161 and a copy of the signed contract must be forwarded to the Contract Coordinator as listed in Attachment 2. If an addendum or an amendment to an existing contract is involved, only a signed copy of the document must be forwarded to the Contract Coordinator.
- 11.42      **Step 2**  
If an addendum or amendment to an existing contract is received, the Contract Coordinator will review the documents, update the CAM if necessary, and forward the documents for presentation to the appropriate regulatory bodies. If a new contract and associated SW-1161 are received, the Contract Coordinator will review the contract for the mandatory affiliate clause, sign the space noting concurrence with the information provided on the SW-1161, and forward the SW-1161 and contract to the CAM Attorney.
- 11.43      **Step 3**  
The CAM Attorney reviews the documentation and after any questions are answered, signs the SW-1161 indicating the contract has been reviewed. The signed SW-1161 and contract is returned to the Contract Coordinator.
- 11.44      **Step 4**  
The Contract Coordinator updates the CAM from the contract if necessary, returns a copy of the SW-1161 to the Contract Administrator, files a copy in the master file for completed SW-1161's and forwards the copy of the contract for presentation to the appropriate regulatory bodies.
- 11.5      Goods/Services purchased from affiliates for use in SWBT nonregulated activities are also subject to the FCC Affiliate Transaction rules.

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- 11.6 Affiliates are required to maintain records to support the methodology used for costing each item invoiced to SWBT. Contract clauses (such as are described in item 11.1) which require the Affiliates to maintain cost information records and to allow representatives from SWBT to review such records must be included in the affiliate contracts to ensure SWBT's relationship with the affiliate remains in compliance with FCC rules.
- 11.7 The organization of the District Manager-State Regulatory Issues performs FCC affiliate transaction rules compliance reviews for purchases from affiliates. These reviews may include validation that prevailing price criteria are met, or where prevailing price is not applicable, reviews include verification of fair market value or FDC and Return On Investment (ROI) studies performed by affiliates. If upon review of the charges to SWBT a true-up is necessary, i.e., the charges to SWBT exceed the combined FDC/ROI, adjustments to SWBT books are required. When charges exceed what is allowed by the rules, the excess is removed from SWBT regulated expense accounts and placed in below the line accounts, i.e., subaccounts of Account 7380, Other Nonoperating Income. This assures these excess charges are not included in rate making activity.
- 11.8 SWBT Management strongly discourages booking charges for goods/services used in regulated business activities below-the-line. Early contract negotiations should consider this when discussing prices to be paid for affiliate goods/services. Instructions for preparation of the vouchers are in Operating Practice 56, Bill Payment Practices.
- 11.9 The Area Manager-Affiliate Transactions receives monthly reports detailing the amounts being booked to the sub-accounts of Account 7380.3 which are reserved for recording below-the-line amounts described above. These reports are used to monitor and control those amounts and for reporting the amounts and sources to external auditors and regulatory bodies.
- 11.10 The FCC, state regulatory bodies and external auditors will perform audits to assure SWBT compliance and to assure the Affiliates have the back-up information necessary to substantiate the costs and cost methodology that they have provided to SWBT. Additionally the Area Manager-Affiliate Transactions performs the compliance reviews noted above, by reviewing the affiliates' cost and billing records to assure SWBT is booking the transactions in compliance with the FCC accounting safeguards.

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## **12.0 OTHER OCCASIONAL ASSET PURCHASES FROM AFFILIATES**

**12.1** As stated in Section 11 there are occasional nonrecurring asset purchases by SWBT from affiliates. An example is when an employee transfers from an affiliate to SWBT and brings his/her microcomputer equipment which is on the books of the affiliate from which the employee transferred. These occurrences must be handled as purchases from affiliates (If the asset to be purchased is considered "Plant-in-place" see Section 10). The following steps must be taken to account properly for these transactions.

### **12.101 Step 1**

As soon as an SWBT employee (buyer) agrees to the purchase of an asset(s) from an affiliate, the employee must contact the seller (affiliate) and request the following:

- a. That the affiliate issue an invoice to SWBT for the purchase of the equipment, furniture, etc.
- b. That the affiliate provide on the invoice for each item of the invoice:
  - A complete description
  - The net book value from the affiliate's books
  - The fair market value which can be obtained by the affiliate from new or used equipment dealers.
  - The purchase price (which should be the lower of net book value or fair market value).
  - The difference between the lower of net book value or fair market value and the purchase price to SWBT, if applicable.
- c. That the affiliate include with the invoice the documentation on the development of net book value and fair market value.

### **12.102 Step 2**

Upon receipt of the invoice from the affiliate the buyer must assure that the requested information is present on the invoice and the back-up documentation from (c) above has been included. If all the requested documentation is not present or the requested information is not on the invoice, the invoice must be returned to the seller. If all the requested information is present on the invoice and the documentation is present the buyer should proceed to Step 3.

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12.103 Step 3

Prepare the documents for payment of the invoice. There is no special accounting as these items are booked just as the purchases of other assets are booked. However, if the purchase price is greater than the lower of net book value or fair market value, the difference must be booked in the below-the-line account 7360 Other Nonoperating Income. If this becomes necessary the Area Manager-Affiliate Transactions can provide the proper sub-account of Account 7360 to which to book the below-the-line amounts.

12.104 Booking any amount below-the-line for these asset purchases is strongly discouraged by SWBT management. However, on occasion, it may make good business sense to do so. As an example, if an affiliate were to sell SWBT furniture that was purchased and expensed by an affiliate, rather than capitalized, it has no book value. The fair market value of such used furniture may be \$1,000 as appraised by used furniture dealers. Therefore the lower of net book value and fair market value is \$0 since there is no net book value, and SWBT must book the entire purchase price below-the-line. If the purchase price was well below the fair market value, the purchase from the affiliate may still make good business sense.

12.105 Step 4

The buyer must forward copies of payment documents and the invoice and any back-up to the invoice that documents the net book value and fair market value of the items on the invoice to the Area Manager-Affiliate Transactions as listed in Attachment 3.

12.106 Step 5

The Area Manager-Affiliate Transactions will provide this documentation and report transaction amounts to the regulatory bodies as necessary.

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## **13.0 AFFILIATE SERVICES**

### **13.1 General**

Affiliate services are a collection of activities that SWBT performs internally that are provided to SBC and SBC's subsidiaries (affiliate companies) utilizing primarily existing resources. The guiding strategy of affiliate services is to maximize benefit to SBC while maximizing contribution to SWBT. This strategy operates within the given of full and complete compliance with Federal and State regulatory requirements.

- 13.101 Divestiture established a new and different environment for SWBT and that environment has continued to change. The need for an effective and efficient way for SWBT to provide certain services to its affiliated companies became readily apparent.
- 13.102 SWBT provided a large number of administrative services for its own use pre-divestiture and continues to provide them for its use today. Since many cost benefits accrue from economies of scale, it was apparent that it would be efficient for SWBT to provide services to the affiliates. This environment is governed by Federal Communications Commission (FCC) guidelines and state regulatory requirements.
- 13.103 Many SWBT groups and individuals are now involved with affiliate companies for the first time. This section of the Operating Practice will give an overview of the affiliate service process, outline the audit trail that is used to verify compliance with the FCC affiliate transactions accounting safeguards, and assist in facilitating the provision of services to affiliates.
- 13.104 A contract process is required for the provision of affiliate services. The contract process defines all SWBT affiliate services in service elements (i.e. per hour, per employee, etc.) that are tracked and billed by unit. Each billable unit has an identifiable cost and a price. This simple easily audited contract process has allowed for the continuous and immediate review of all affiliate services sales to ensure that each transaction complies with the applicable FCC accounting safeguards, and thereby ensures the absence of cross-subsidization of non-regulated affiliates by SWBT's regulated operations.

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- 13.105 The contract process and the audit trail are coordinated by the Area Manager-Affiliate Services in the State Regulatory Issues District of the External Affairs department.

13.2 Process for Sale of Affiliate Services

- 13.21 Since affiliate services are not tariffed and are not offered to third parties, neither tariffed rate nor prevailing price is appropriate costing methodology. The FCC affiliate transaction accounting rules for affiliate services sales states that SWBT must record, as revenue, the greater of fully distributed cost or estimated fair market value. The fully distributed cost requirement is in place to ensure the absence of cross-subsidization by the regulated company to the unregulated affiliate. The basis of the audit trail is this Operating Practice which requires all sales to affiliates to be reduced to writing. These contract documents form the basis for SWBT's ongoing relationship with the affiliate and provide the foundation for the audit of the affiliate services process. See Attachment 7 of the Operation Practice for the flow chart of this activity.

- 13.22 The elements of the affiliate services sales process that must take place in order to document compliance with the FCC affiliate transactions accounting rules are outlined by responsible organization and include the primary elements of: incremental unit cost (IUC), fully distributed cost (FDC), estimated fair market value (FMV), price and units sold.

- 13.221 STEP 1 SERVICE PROVIDER As soon as the service provider determines a service might be offered the service provider must estimate the appropriate recurring and non-recurring labor, expense and/or capital required to provide a specific service to an affiliated company. The service provider will also provide a brief description of the service. Along with the description of the service, the service provider will supply three external price quotes or price lists, if applicable, that can be used to document the estimated fair market value. If the service provider is unable to provide this documentation of estimated fair market value,

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the Area Manager-Affiliate Services will coordinate with an appropriate outside consultant to perform an estimated fair market value study. This information must be forwarded to Manager-Affiliate Services, 38-T-06, One Bell Center, St. Louis, MO. 63101, prior to any substantive conversations with the affiliated company.

- 13.222 STEP 2 AFFILIATE SERVICES GROUP The Manager-Affiliate Services will provide this information to the Manager-Cost Analysis, within three work days of receipt from the service provider. At the same time, new contract documents are created or existing documents modified and sent for legal review, if required (see step 4).
- 13.223 STEP 3 COST STUDIES All cost studies will be forward looking and shall be for a period of time from 12 to 60 months. In addition to IUC's, FDC studies are developed to determine the cost that must be recovered by price in order to comply with the FCC affiliate transactions accounting safeguards. Manager-Cost Analysis will coordinate directly with the service provider to resolve any questions or omissions in the cost input. Cost study results will be sent to Manager-Affiliate Services as soon as completed, but no later than 21 work days from receipt.
- a. IUC, while not required for compliance with the FCC standards, is an integral element in defining the benefit to SWBT of providing a service to an affiliate company. The IUC identifies the direct cost incurred by SWBT to provide the service. If price is greater than IUC, then such contribution is applied to common cost. This contribution from affiliate services helps reduce upward pressure on local service rates by producing revenue from previously non-revenue producing resources.

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- b. FDC is the calculation of all direct and indirect cost associated with the provision of an affiliate service and is the cost that is required by the FCC to be recovered from an affiliate to ensure the absence of cross-subsidization. When the FDC is compared to price for each billing unit provided to an affiliated company it is immediately apparent that SWBT is complying with the FCC affiliate transactions guidelines.

13.224 **STEP 4 LEGAL REVIEW** If the service requires a new General Services Agreement and/or a new Schedule and pricing addendum the Affiliate Services Group will draft and submit those documents for review and approval. If the service is a change to an existing Schedule no additional legal review is required.

13.225 **STEP 5 AFFILIATE SERVICES GROUP** Pursuant to the Schedule of Authorizations the Area Manager-Affiliate Services will in each case, with the assistance of the Manager-Affiliate Services, set a price that reflects the greater of fully distributed cost or estimated fair market value. As an input to the pricing decision, service provider provided price quotes or price lists, if available, are utilized along with the results of market studies to determine a final price. The established contract price immediately documents that the service provided to an affiliate has recovered cost as required by the Final Order in CC Docket No. 96-150.

13.226 **STEP 6 AFFILIATE SERVICES GROUP** After the price is set and the contract documents are approved by legal, the documents are signed by SWBT in accordance with the Schedule of Authorizations. Upon signing by SWBT the documents are sent to the affiliated company coordinator to be signed by the affiliated company.

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If the contract documents are not received in 30 days and services are being provided, the affiliate services group will send a copy of the documents signed by SWBT to the service provider to start billing. Upon receipt of the fully executed documents, copies will be sent to the service provider (see step 8).

- 13.227 **STEP 7 AFFILIATE COMPANY COORDINATOR** The affiliate company coordinator is the single point of contact in the affiliated company that is responsible for the signing of the contract documents.
- 13.228 **STEP 8 AFFILIATE SERVICES GROUP** Upon return of the properly signed documents, the affiliate services group distributes copies to the service provider, the affiliate billing group and legal.
- 13.229 **STEP 9 SERVICE PROVIDER** The service provider has the responsibility and must ensure that accurate quantities of service are reported and billed each month. The service provider organization must have in place a means to capture the units sold, and a departmental procedure that instructs employees in how service will be provided, documented and submitted for billing. The Service Provider must supply accurate billing information to the Manager-Affiliate Billing as directed in Attachment 5, **AFFILIATE BILLING CONTRACT ADMINISTRATOR GUIDE**.
- 13.3 SWBT's audit trail of affiliate services has documented for every single element of affiliate service, the IUC, FDC, estimated fair market value, contract price, and billing record. This straightforward audit trail allows for an immediate verification of compliance with the FCC affiliate transaction rules.

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Southwestern Bell Telephone Company  
Operating Practice 125  
Nontariffed Activities and Affiliate Transactions

Exhibit A  
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June 1997



CONTRACT CLASSIFICATION FORM

SW-1161  
(Rev. 8-89)  
Ref: Operating Practice 125

Retain 10 years, until \_\_\_\_\_

To be completed by the Contract Administrator:

Title of Contract/Agreement: \_\_\_\_\_

Description of Service: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Term Of Contract: From \_\_\_\_ / \_\_\_\_ / \_\_\_\_ To \_\_\_\_ / \_\_\_\_ / \_\_\_\_ Estimated Start of Billing: \_\_\_\_\_

Casting Methodology: IUC \_\_\_\_ CAM \_\_\_\_ Cost Study Contract: \_\_\_\_\_ Date Requested: \_\_\_\_\_

Service Provided To: \_\_\_\_\_

\_\_\_\_\_

Estimated Potential Impact: \_\_\_\_\_

\_\_\_\_\_

CONTRACT CLASSIFICATION: Regulated: \_\_\_\_\_ Incidental: \_\_\_\_\_ Nonregulated: \_\_\_\_\_

Rationale Supporting Classification: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Completed By & Return To:

Name: \_\_\_\_\_ Contract Administrator: \_\_\_\_\_

Title: \_\_\_\_\_ Service Provider: \_\_\_\_\_

Dept: \_\_\_\_\_ Product Manager: \_\_\_\_\_

Address: \_\_\_\_\_ Other: \_\_\_\_\_

\_\_\_\_\_

Telephone No.: \_\_\_\_\_

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

\_\_\_\_\_

To be completed by GHQ or State Contract Coordinator:

CONCURRED: AGREE \_\_\_\_\_ DISAGREE \_\_\_\_\_ (See Remarks)

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Dept: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

Telephone No.: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Additional Classification Information:

Miscellaneous: \_\_\_\_\_ SNFA: \_\_\_\_\_

BELLCOPE: \_\_\_\_\_ ARISS: \_\_\_\_\_

Detariffed: \_\_\_\_\_ Tariffed: \_\_\_\_\_

IRS: \_\_\_\_\_

Other: \_\_\_\_\_

Contract ID No.: \_\_\_\_\_

Date: \_\_\_\_\_

\_\_\_\_\_

This is to indicate that the Legal Department has reviewed this contract:

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

\_\_\_\_\_

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Exhibit A  
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LETTER OF NOTIFICATION EXAMPLE

**AREA MANAGER-NONREGULATED ACCOUNTING: (OBC,33-D-07)**

This is to inform you of a new activity that has been identified as a potential offering by Southwestern Bell Telephone Company. Attached is a detailed description of this activity. Please notify me if there are special time reporting or cost tracking requirements. The other employees working on the activity and I will keep track of all costs and time spent on investigation, development and other work for this activity until I am notified of the appropriate reporting procedures.

Questions may be referred to \_\_\_\_\_ on  
\_\_\_\_\_.

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Dept: \_\_\_\_\_

Address: \_\_\_\_\_

Telephone: \_\_\_\_\_

**Attachment**

**CC: Legal (CAM Attorney, OBC, 3522)  
Area Manager-Affiliate Transactions (OBC, 38-S-05)  
Area Manager-Nonregulated Accounting (OBC, 33-E-07)**

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